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The Business Need of Financing the Masses

By Edward A. Filene

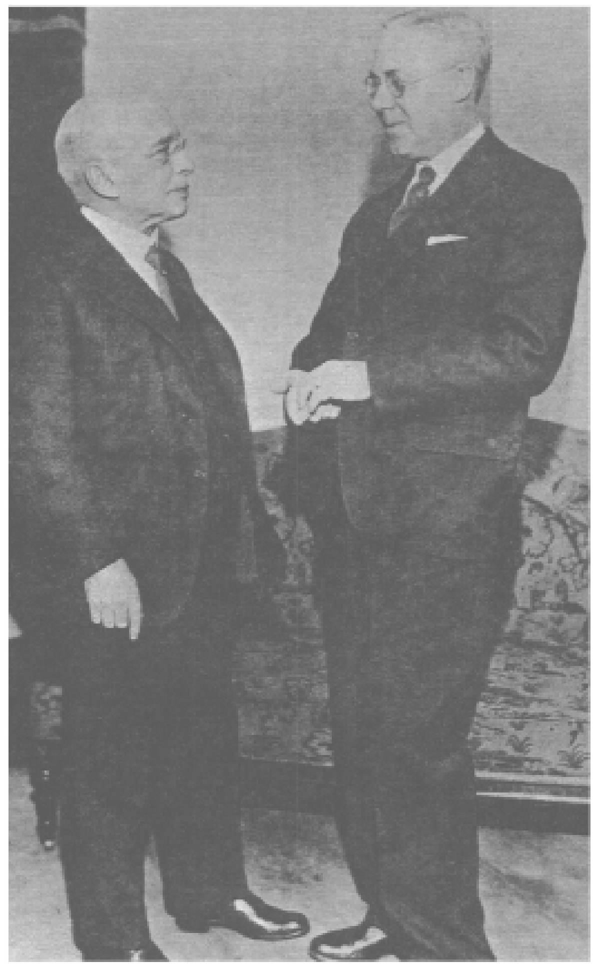
At the time when the first credit unions were launched in America, a few years before the World War, it seemed that there was no relation between credit-unionism and business. Many of my business acquaintances, who knew me well enough to know that I would not be likely to indulge in philanthropic hobbies, could not quite understand my interest in credit-unionism.

They could easily understand the need of credit unions. They could see that credit-unionism was a worthy cause. But to spend one's time and some money in trying to promote the cause, seemed to them on a par with, say, endowing a hospital. I had a difficult time, often, in convincing people that I was not exactly the kind of philanthropist which they took me for. But I assure you I was not. Credit-unionism, I believed, would one day play an important role in the drama of American business and finance.

To talk of cooperative credit at that time was rather futile, in spite of the fact that successful credit transactions must always be undertaken in a spirit of cooperation between borrower and lender. But cooperation was not a word which was then used by business men to the extent that it is today.

I do not feel that it is a hard task today to explain the business significance of the credit union movement, or to indicate the need of business generally for well-established credit for the masses.

This is probably the first depression in history when business men generally have found themselves sighing for the return of an era of high wages. They used to think, in that queer old social order which existed on earth before the year 1914, that it was an ad-



Edward A. Filene *(left)* and Roy F. Bergengren, pioneers in the credit union movement, in the early 1930s.

vantage to business, somehow, if help was so plentiful that workers could be induced to work for next to nothing. They were good men, of course. They were kind-hearted, sentimental, easily moved to tears. But they did not seem to understand that people who worked for next to nothing could buy next to nothing, and that business men could therefore sell them next to nothing.

Our industrial mechanism in America today is in better condition than ever. Our business men are as able as they ever were. We have ample machinery, ample technique, ample knowledge of scientific management and ample labor power in America to produce a higher standard of living than we had in 1929. Furthermore, every American wants this higher standard of living. The general public is as eager to buy things as business is to sell things. But the public has either been stripped of buying power or is so fearful of the future that it is confining its spending largely to the purchase of bare necessities.

No intelligent business man needs to be reminded that if Americans generally were buying the things they want to buy, business generally would be highly profitable. To buy, however, requires either money or credit. To provide necessary money and credit to keep industry going is the function of our financial institutions. But we are not providing the masses today with this buying power. Something has happened which was utterly beyond our calculations. Nothing in our financial traditions indicates a way by which the masses of Americans may be supplied with buying power, at a time when every necessity of business demands that the masses must have this buying power.

But I do not wish to indict our financiers. Indictments are rather futile, anyway. It is far more to the point to discover why finance has recently become so impotent that it can no longer answer the call of business necessity.

The reason is not hard to discover. Our American financial institutions were never designed to meet any such emergency as this. They did well the job which they were designed to do. One may criticize them freely and still admit that. One may say that they should have done this, that and the other thing, too. One may say that they should have made some provision, twenty or thirty or forty years ago, for the need of small loans to the average family, at a rate of interest which would not ruin the family and make it impossible in the end for the family to repay its loan. But neither business men nor bankers believed, twenty years ago, that such loans were within the sphere of our regular financial institutions. These institutions were designed to serve business, especially in one vital way.

They came into existence in an era of business expansion. Each businessman, naturally, viewed this expansion strictly in terms of his own business opportunities; but what was actually happening was that our whole society was being transformed from an agrarian to a machine civilization. To effect this transformation, required financing. A man who had successfully built up a small factory, only to find that there was now an opportunity to make a hundred times greater profits by launching out on a hundred times greater enterprise, could not finance the big enterprise with the profits of the small one. But, fortunately, for him, and for civilization, he did not have to wait.

America did not have to wait for her railroad system until the stage coach interest had saved up enough money to build our transcontinental lines. Our steel industry undoubtedly evolved from the blacksmith shop; but no blacksmith or association of blacksmiths could have capitalized the Bessemer process. Nevertheless, all these new movements were capitalized. They were capitalized by the savings of the masses of people everywhere—savings which were collected and directed by financiers whose ability and genius cannot be questioned.

It may have seemed at times that they acted more like buccaneers than financiers. In the launching of railroads and early industrials, the humble stockholder often found himself sadly shorn. But the railroads were built. The big industries came into existence. American finance did the big job which it was designed to do.

And when the job was done—when the country had become so full of machinery that it became the chief problem of business everywhere to find a market for the enormously increased output of machines—we went merrily on our way filling the country with more and more machines.

In a way, however, the masses were financed, but the financiers did not call it finance. If the masses had not been provided with more money and credit, their standard of living could not have been bettered from generation to generation. The fact was, however, that they were being paid higher wages, but both employers and financiers thought of these wages as an expense incidental to business; not as a necessary financing of consumption to the end that industry might sell its increasing volume of products profitably. They thought labor was a commodity, to be bought at the lowest possible cost, and they could not think of it as a market to be developed. Hence, while the financing of the production was given careful study, and every possible effort was made by our best financiers to see that it was accomplished in a businesslike manner, the financing of consumption was left entirely to chance.

When markets lagged behind production, then, the situation was met, not by increasing the buying power of the masses, but by financing high-pressure salesmanship. High-pressure salesmanship scarcely thought of the consumer; or, if it thought of him at all, it thought of him as a battle ground—as an objective to be wrested from the enemy. Because the thought of the world turned to high-pressure salesmanship instead of the orderly financing of consumption, the world went to war; and the financial resources of the world were then necessarily devoted to the financing of destruction.

After the war, instead of learning our lesson, we turned our attention to financing production once more. It is a sordid story, but I cannot go into it now. We built up great industrial plants in every country, and then we built up high tariff walls which kept these plants from functioning. America loaned billions of dollars to other countries and, by excluding the products of other countries, made it next to impossible for the other countries to repay their loans. Out of the wealth produced by successful industries, we now undertook to finance unsuccessful industries so that they could continue their unsuccessful practices. We financed agriculture, not with the thought that industry and agriculture work harmoniously according to one definite plan of wealth production and distribution, but so that farmers could continue the processes by which they had produced mountains of wheat and cotton and other products which could not be sold at enough to pay for the cost of their production. Then we spent hundreds of millions futilely trying to raise the price of things for which there was no market. And when the great necessity demanded that the masses should buy things which they wanted, on a scale on which the masses had never bought before, the masses were encouraged by our financial leaders to quit buying things and invest their savings in a bull stock market where they could be used at best only in increasing the number of things which could not be manufactured successfully unless the masses were buying things instead of stocks.

All this ended in the only way that it could end—in the breakdown of money and credit. There was nothing mysterious about it. It could all have been foreseen decades before it happened. One did not have to be a prophet, even in those years way back before the war, to see that the time must come when production would so outstrip buying that business could no longer be profitable unless our financial institutions turned their attention to increasing the buying power of the masses.

Now, a breakdown of a financial system is always a very serious matter. It is a peculiarly perilous thing in a democracy where the masses have the power of legislation in their hands. In America, twenty years ago, one could not get very far in discussing such problems as money and credit, with the average American citizen. Most financiers knew little enough about such things, but the masses knew nothing at all. Because money and credit were being administered, however, in such a way that the masses did not suffer too bitterly, the masses permitted the financiers to organize money and credit according to their notions of safe, sane and conservative finance.

The American dollar, therefore, was kept sound. The American worker did not listen much to demagogues. Soapbox orators secured a meager following. It was conceded that there were injustices and inequalities, but America generally trusted their business and financial leaders; and because these leaders were, with all their faults, achieving the results which most needed to be achieved, they proved themselves generally worthy of this trust.

But that cannot be said today. When any financial system proves powerless to serve the needs of business, and when ten or twelve million find themselves unemployed because of a financial breakdown, there is no telling what demagogue they may follow or in what economic vagaries they may put their trust.

Fortunately, however, during the past, one of the great factors working for safety in the present situation is the credit union movement. Many of you are doubtless familiar with it, and it is certain that we shall all become much more familiar with it during the next few years; for the credit union movement in America, although more than twenty years old, has, in this period of depression, entered upon an era of most extraordinary expansion. It is today, I think, the only financial organization in America which is going steadily and rapidly forward. There are reasons for this. To understand them thoroughly, we should go back to the old days before the war and recall the general attitude of business and finance in that period, toward the financial problems of the workers.

Employers, it will doubtless be remembered, generally wished their workers well; but their notion, usually, of wishing any particular worker well was to wish that he might some day be able to quit working for wages and become an employer.

Some of them doubtless wished everybody well. It would be a happy world, presumably, when nobody would be working for wages and everybody would be getting fat profits.

But it didn't turn out that way. The vast majority continued to toil, either on the farms or in the factories; and save as they might for a rainy day, there were crises in almost every family when it became necessary to borrow money. A long spell of sickness, an accident, a funeral in the family, or the coming of children was likely to find the family hard-pressed. There were banks everywhere whose business it was to lend money, but not to the average family which had become financially embarrassed. The average family had no security to offer. But the need for loans was desperate, and loan sharks saw their opportunity. They had money to lend, and the desperate families borrowed, on whatever terms the loan sharks might stipulate.

Some states had laws to curb loan sharks. But the laws could not be enforced because, when a family is desperate enough and cannot get a loan elsewhere, it will patronize a bootleg banker.

There was nothing original in the idea of the credit unions. In many European countries and even in Asia, cooperative credit organizations had flourished among the poorest classes, and some of them were instrumental in the eventual up-building of the great European cooperatives. In America, many things worked against the development of a similar movement. America was highly individualistic; and not only was the American standard of living higher than the European standard, but there was a widespread hope on the part of most of the American poor that they would not remain poor very long. Even to get credit-unionism started in America, it was necessary to get new banking laws in almost all the states; not because the states had been particularly influenced by the loan sharks, but because every family in America had been historically supposed to take care of itself and, when it came to the consideration of financial matters, it occurred to few to consider the needs of families for small loans.

To start a credit union required only a few people who knew each other and wished to pool their resources to provide for any emergency which any one of them might have. Usually, they sold shares in the union for five dollars a share, and anyone could buy as many shares as he wished. The credit unions are democratic, however, and each member has but one vote, regardless of how many shares he may possess. To make the purchase of shares easy, it has been the customary practice to buy them by paying twenty-five cents a week. A dozen men in a saw-mill, each paying twenty-five cents a week toward a fund which may be loaned to any one of them, is surely not a very impressive financial organization, that is, if size is the thing with which one happens to be most impressed.

But the credit union movement has grown. Today there are 1,800 credit unions in America, with about three hundred thousand members, and total assets of more than fifty million dollars. Four hundred and fifty credit unions were established last year.

Some of the older credit unions are large, with assets running close to a million dollars. Nevertheless, although these funds have not been in the hands of financial experts, they have been handled so successfully by executives chosen from the membership, that financial experts who have taken pains to examine the records have expressed amazement. Their investments have been of the soundest type, while the percentage of losses due to non-repayment of loans to members, without bank security, has been far lower than the losses recorded by our banks in supposedly well-secured loans to business men. This is due in great measure, doubtless, to the fact that there is such an abundance of latent talent among the masses everywhere, that only opportunity is needed to call forth leadership. There was, however, a peculiar fact which worked to the advantage of the credit unions. They were not bound by the traditions of financial institutions and had to find their way directly, step by step.

Obviously, they could not succeed, unless their loans to members were paid back. These loans had to be well-secured, although the members could not offer the kind of security which traditional banking would recognize as security. They could not offer the security of property; but they could and did offer a security which was inherent in the facts of their relationship to each other. This is a point which I trust everyone will remember in considering the problem of how business, at this particular crisis, may safely undertake to increase the buying power of the masses.

That they did their job well must now be seen. It is not merely a case of weathering the depression, but of having so successfully met the financial need for which they were organized, and for which traditional banking had made no provision, that they are now expanding to a point where they bid fair to become a real factor in American finance. In two ways, this credit union movement is of utmost importance to American business. First, it is a mass movement which, as it spreads, must educate the masses in sound principles and the sound practice of finance—and this, at a critical period when our financial safety demands that the masses should be so educated. Secondly, they have learned and demonstrated certain financial principles which all business men and all financiers would do well to note.

They have learned, for one thing, that loans, to be safe and profitable, must be constructive. They have learned the principles of mutuality and cooperation. They have learned that borrower and lender have a common interest; and that it is the business of the lender to help the borrower repay his loans.

They have learned that lending, to be most profitable, should be carried on with the least possible cost. They have learned that interest rates should be as low as they can be made, and to look for their profits in many loans and in the constant turnover of the dollar, rather than in such exorbitant rates as to discourage borrowing.

Above all, they have learned the purpose of money and credit. They have learned the simple formula, which everybody admits but which few stop to think about, that the purpose of money and credit is to facilitate exchange. That is the only purpose. That is the only way in which money and credit can be successfully employed. During the building up of our machine civilization, money and credit were thus employed, even though they were used almost exclusively to finance production. Now that the machine age has arrived; however, merely financing production no longer facilitates exchange. Now we must finance consumption to keep pace with production, or production cannot be truly financed.

There are many ways of increasing the buying power of the masses. To discuss the separate ways is not my purpose here. The immediate need is that all business men and all those who have to do with money and credit shall see the immediate necessity of undertaking the job, and directing such resources as we have, to this most needed end.

The time has surely passed when business can consider selling as apart from buying. Everything that is sold must be bought. By no possibility can the amount of sales exceed the amount of purchases, and high-pressure salesmanship without a corresponding high-pressure buymanship is simply throwing money to the winds. Buying and selling are but different aspects of one act—the act of trade. What is traded is not money, for money is a mere measure of the value of what has been traded, and its purpose is to facilitate trade. What is traded, in this modern world, is the service of one person usually to a great number of persons, for the service of a great number of persons to him. It is in this process of trade that our modern world lives- -the farmer almost as much as the industrial worker. Everybody has to buy almost everything he needs, and almost everybody has to sell some kind of service in return—excluding only infants, criminals, beggars and possessors of special privilege.

Only when this exchange goes on uninterruptedly, can there be prosperity. When the buying power of any important group lags, the whole process will be interrupted, with the inevitable result not merely that production must lag, but that the buying power of every group will soon tend to lag.

In modern industry, however, it is inevitable that production will increase. Producers who do not use the best methods will surely be undersold; and if they do employ the best methods, they will necessarily increase production. This must result in more things which must be bought, or else production must slow down. But if production slows down, unemployment must occur; and unemployment so decreases buying power that more unemployment necessarily follows. This would constitute a hopelessly vicious circle if it were not for the power of credit. But credit used for any other purpose than to facilitate exchange is credit wasted; and the only way the exchange in such a society can be facilitated is, not through financing production nor even through financing consumption, but through recognizing that they are but parts of one process and that one cannot be properly financed unless the other is properly financed.

It is one of the interesting inevitabilities of the near future, then, the employers, business men and financiers shall be striving as hard to pay the highest possible wages that the best methods of production will enable them to pay as they ever strove in other days to get the greatest total profits. They will be struggling just as hard because they will be struggling for the same thing for which they always struggled—the greatest total profits, the only difference being that we have hit upon times when the greatest total profits cannot be achieved in any other way.

To do our best, however, we shall still find it no doubt impossible to raise wages and lower prices as rapidly as production will increase; and that will certainly bring on unemployment unless finance steps in to take up the slack between mass production and mass buying power. One of the first steps in this new finance should be the introduction by business of a business system of unemployment insurance; and that this unemployment insurance may not become expensive, business must concentrate on the organization of more and more new employment as rapidly as improved methods tend to release workers from their customary employment. There is nothing magical about this. It is not raising ourselves by our boot-straps. It is raising ourselves, rather, by the greatest of all social forces—the power of money and credit to enrich the masses of mankind by facilitating the exchange of more and more efficient services.